



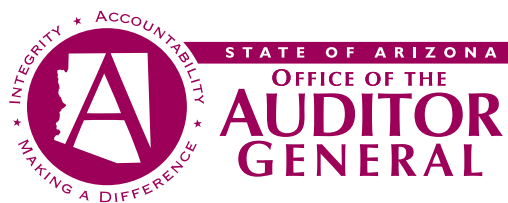
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Bicentennial Union High School District No. 76

As of March 2, 2005



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

July 26, 2005

Governing Board
Bicentennial Union High School District No. 76
P.O. Box 519
Salome, AZ 85348

Members of the Board:

In our September 17, 2004, compliance review report, we notified you that the District had not complied with the USFR for the year ended June 30, 2002, based on the District's *Uniform System of Financial Records* (USFR) Compliance Questionnaire and management letter for that fiscal year, the most current Questionnaire and letter available. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of March 2, 2005. Our review covered the deficiencies we had previously communicated to management as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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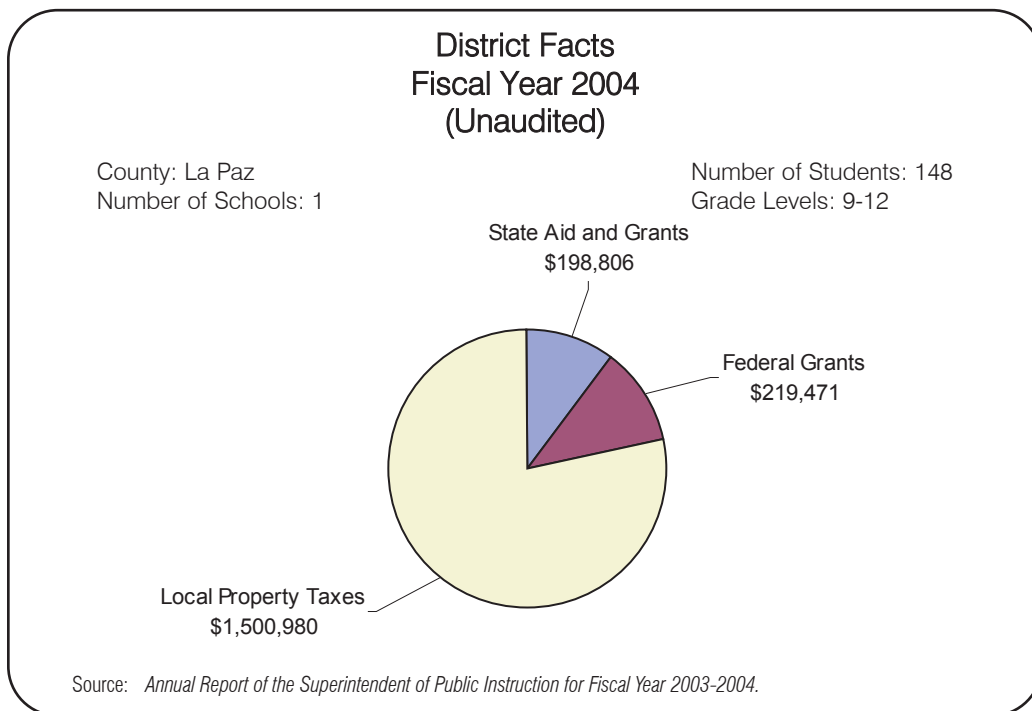
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INTRODUCTION

Bicentennial Union High School District No. 76 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.9 million received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over purchasing

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are properly supported and that it receives the best possible value for the public monies it spends. However, the District did not fully accomplish these objectives. Specifically, for one purchase requiring competitive sealed bids, the District did not advertise the invitation for bids, retain documentation of the time and date that the bid was received and opened, or document the determination that the bid received was advantageous to the District. Also, the District did not obtain oral price quotations for purchases requiring them. Additionally, for purchases made through a purchasing cooperative, the District did not ensure that the contracts it used were bid by the cooperative according to School District Procurement Rules. Further, the District paid for a legal advertisement twice.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR provides the guidelines for:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$33,689. Maintain records of the time and date that bids/proposals were received and who was present at the scheduled opening. If the District receives only one bid, it should document in writing a determination that accepting the bid is advantageous to the District before awarding the contract.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Document the due diligence procedures performed for at least a sample of the contracts that the District wishes to use from a purchasing cooperative, to ensure that cooperative contracts were bid following the School District Procurement Rules.
- Mark vendor invoices as "paid" or "duplicate," as appropriate, to avoid paying expenditures twice.

The District should maintain complete and accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets to ensure that they are accounted for properly. However, the District's capital assets and stewardship lists were not complete and accurate. Specifically, the District's capital assets list did not include all required information for each asset, and the stewardship list did not include computers and a location for all items. Additionally, cost amounts reported on the capital assets list did not always agree to supporting cost documentation. Also, the District did not reconcile capital expenditures to acquisitions. Further, the District did not follow USFR guidelines when performing its physical inventory counts of capital assets as count sheets and control logs were not used and a second employee did not verify inventoried assets on a test basis.

The District did not adequately conduct its physical inventory or prepare complete capital assets and stewardship lists.

Recommendations

The following procedures can help the District improve controls over its capital assets and help ensure accurate and complete capital assets and stewardship lists are maintained:

- Maintain a capital assets list of all items costing \$5,000 or more with useful lives of 1 year or more, and a stewardship list of all equipment items costing between \$1,000 and \$5,000. Include all required information for each item on the lists.
- Retain cost documentation for all items recorded on the capital assets list and verify that the cost for each item on the list agrees to supporting cost documentation.
- Reconcile all items added to the capital assets list during the fiscal year to capital expenditures, and the current year's lists to the prior year's lists, and make all necessary corrections.
- Perform a physical inventory of all equipment items at least every 3 years following USFR guidelines. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists and add items to or remove items from the lists, as necessary.

USFR pages VI-E-2 and 3 describe information that should be included on the capital assets and stewardship lists.

Instructions for performing a physical inventory are listed on USFR pages VI-E-8 and 9.

The District's controls over cash receipts should be strengthened

The District receives cash for various purposes, including extracurricular activities tax credit donations and food service operations. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not adequately separate employee responsibilities for extracurricular activities tax credit donations received and for food service receipts. For example, the same employee that collected food service receipts recorded the receipts and reconciled cash collections to sales.

Recommendations

To help strengthen controls over cash receipts, the District should separate cash-handling and recordkeeping responsibilities between employees. For food service sales, the District should have a second employee record the receipts and reconcile sales to cash collections and meals served. For extracurricular activities tax credit donations, the District should have a second employee reconcile cash collections to the prenumbered cash receipts forms and the validated deposit slip.

The District should improve controls over payroll

Payroll timecards were not prepared correctly and did not support amounts paid to hourly employees.

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid the correct amount. However, the District did not achieve this objective. For example, pay for hourly employees was not always supported by hours worked or leave taken reported on employee timecards. Also, employee timecards were not always signed by the employee or approved by the employee's supervisor. Further, timecards did not always include dates or hours worked.

Recommendations

To help strengthen controls over payroll expenditures, the District should ensure that amounts paid to hourly employees are supported by properly completed and approved timecards. Timecards for hourly employees should include the dates and hours worked and leave taken, be signed by the employee, and approved by the employee's supervisor.

The District should document student enrollment and withdrawal dates

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not provide a place on its enrollment forms to record student entry dates. Also, the District did not always record withdrawal dates on the Official Notice of Pupil Withdrawal forms.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should retain documentation to support student entry and withdrawal dates reported to ADE. The District should record student entry dates on the students' registration/entry forms and should record student withdrawal dates on the Official Notice of Pupil Withdrawal forms. In addition, a second district employee should verify that student entry and withdrawal dates have been completed on the appropriate forms and agree with those dates in the District's attendance records.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.